

Foreword

The **2001 Budget Act** is generally a reasonable one for California public education, given the state's fiscal condition. The Budget Act and the accompanying trailer bills provide \$40.5 billion in state and local funds for 2001-02, an increase of \$2.4 billion over the 2000 Budget Act spending level. This funding increase raises Proposition 98 spending to \$7,002 per pupil in average daily attendance in 2001-02, which is 4.5 percent over the 2000 Budget Act level.

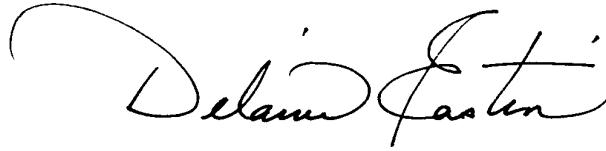
The budget also provides \$1.1 billion in one-time funds that must be spent for Proposition 98 purposes. These funds are not counted in the 2001-02 Proposition 98 spending totals.

The budget funds statutory enrollment growth for revenue limits and for categorical programs and provides cost-of-living adjustments of 3.87 percent. It provides \$395 million to fund the settlement agreement in the special education mandate lawsuit and \$250 million for one-time grants for energy costs and energy conservation programs. I am especially pleased that the budget establishes important new programs for low-performing schools (\$200 million) and professional development in mathematics and reading (\$80 million).

This report contains a detailed summary of the major features of the **2001 Budget Act** and the trailer bills affecting K–12 education. The report is organized alphabetically by program name in three categories: new programs, school apportionments, and categorical programs. For each program, the report identifies the 2001 Budget Act item number, the Standardized Account Code Structure Resource Code, the authorizing *Education Code* section, and the key features of the 2001-02 appropriation. The report also presents relevant program information prepared by California Department of Education (CDE) staff, which includes key dates, reporting forms, and data requirements that can help local officials obtain state funding for these programs.

This report is available on the CDE Web site through the home page of the School Fiscal Services Division, <http://www.cde.ca.gov/fiscal>. The online report incorporates links to other useful sites, allowing users to move immediately from our discussion of each program to the Budget Act item containing the appropriation and to the specific *Education Code* section authorizing the program. In addition, the report contains links allowing the reader to send an e-mail comment or question to the staff person responsible for each program.

I hope you find this report useful. Comments on the report and general questions regarding the budget should be directed to the Fiscal Policy Office at (916) 323-8068.

A handwritten signature in black ink, reading "Delaine Eastin". The signature is fluid and cursive, with a large initial "D" and "E".

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State Superintendent of Public Instruction

Overview

On July 26, 2001, Governor Gray Davis signed Senate Bill 739 (Chapter 106, Statutes of 2001), the **2001 Budget Act**. This measure, along with various budget trailer bills, sets the conditions for the allocation of state funds for California public schools through June 30, 2002.

This report provides a detailed summary of the 2001-02 state education budget. It is an update of earlier information on the budget provided in *Management Bulletin 01-03*, issued July 31, 2001. This section presents a brief overview of the budget, including the major provisions relating to K–12 education. The sections that follow present in more detail the specific provisions of the 2001-02 spending plan for public schools. Each of those sections contains the pertinent facts of the budget and associated trailer bills, including the Budget Act item and *Education Code* sections authorizing the expenditures and the Standardized Account Code Structure (SACS) Resource Code to be used in accounting for them locally. The sections also contain (1) program information and comments concerning implementation schedules and reporting deadlines; and (2) the names of persons to contact and their telephone numbers.

State General Fund Budget

Unlike the budget acts of the past three years, the **2001 Budget Act** reflects a reduction in projected state tax revenues relative to the Governor's original budget proposal. This reduction is due to forecasts of an economic slowdown and a significant decline in the stock market. In January the state Department of Finance projected that General Fund revenues would increase by 6.9 percent in 2000-01 and by 3.3 percent in 2001-02. In the May revision, the Department projected that General Fund revenues would increase by 8.5 percent in 2000-01 but decline by 4.1 percent in 2001-02. The May revision in projected revenues resulted in a net reduction of \$3.4 billion below the amount

anticipated in January that would be available for the state budget during the two-year period 2000-01 and 2001-02.

Table 1 shows total General Fund revenues, expenditures, and year-end reserves for both 2000-01 and 2001-02. The table shows that, under the **2001 Budget Act**, the budget year is expected to end with a reserve of approximately \$2.6 billion (3.5 percent of General Fund revenues).

Table 1 - General Fund Summary
(Dollars in Millions)

	2000-01	2001-02
Prior-Year Balance	\$9,139	\$7,055
Revenues	78,003	75,105
Total Resources	\$87,142	\$82,160
Total Expenditures	\$80,087	\$78,763
Fund Balance	\$7,055	\$3,397
Other Obligations	701	701
Set-Aside for Legal Contingencies	7	100
Reserve	\$6,347	\$2,596

The budget provides a total of \$45.4 billion in state and local funding in 2001-02 for K–12 schools, other educational agencies, and community colleges under Proposition 98. This funding amount exceeds the required expenditures by \$4 billion in 2001-02.

Proposition 98. Proposition 98, approved by the voters in 1988, provides K–12 schools and community colleges with a constitutionally guaranteed minimum level of funding. Although the actual calculation of the guarantee is quite complex, the basic principles of Proposition 98 are relatively simple:

- In years of “normal” state revenue growth, K–14 education is guaranteed a level of state and local funding at least equal to that which schools and community colleges

received in the prior year, adjusted for changes in enrollment and per capita personal income.

- In years of extraordinarily “good” or “bad” revenue growth, K–14 education participates in the state’s gains or losses according to specified “fair share” formulas.
- Following a “fair share” reduction in the level of the Proposition 98 funding guarantee, the state is obligated to eventually restore K–14 education funding to the level that schools and community colleges would have received if no reduction had occurred. The pace of this restoration is tied to the pace of the state’s economic recovery.

Test 1, Test 2, and Test 3. In practice, the minimum funding guarantee is determined by one of three so-called tests. Specifically, K–14 education is guaranteed a minimum funding level based on the greater of:

Test 1—Percent of General Fund Revenues: the percentage of state General Fund tax revenues received by schools and community colleges in 1986-87 as adjusted for the impact of shifts in property taxes from local governments to schools (currently about 34.6 percent)

OR

Test 2—Maintenance of Prior-Year Service Levels: the prior-year level of funding from state aid and local property taxes increased for enrollment growth and “inflation” as measured by the change in per capita personal income

However, in years when the growth in personal income exceeds the growth in General Fund revenues by more than 0.5 percent, the following alternative test is substituted for Test 2:

Test 3—Adjustment Based on Available Revenues: the prior-year level of funding from state aid and local property taxes increased for enrollment growth and

“inflation” as measured by the change in per capita General Fund revenues plus 0.5 percent

Test 3 is intended to ensure that K–14 education bears a “fair share” of the state’s General Fund revenue growth in extraordinarily good or bad revenue growth years. (Note that Test 2 and Test 3 differ only in the inflation factors used.)

Recently, the Proposition 98 funding guarantee was generally computed based on Test 2, which is unaffected by changes in General Fund revenues (see Chart 1). When the guarantee is based on Test 1, K–14 education gains or loses about 35 cents of every additional dollar of General Fund revenues gained or lost. When Test 3 applies, the guarantee is even more sensitive to changes in General Fund revenues—gaining or losing about 63 cents of every marginal tax dollar.

[INSERT CHART 1 ABOUT HERE—SAME AS CHART IN 00 BUDGET REPORT]

Chart 1 – Proposition 98 Guarantee

Under the revenue assumptions underlying the **2001 Budget Act**, the Proposition 98 minimum funding guarantee for 2000-01 is determined by Test 2 and for 2001-02 by Test 3. As was the case during the past two years, however, the budget funds K–14 education at levels exceeding the minimum amounts required by the State Constitution.

Restoration. If the Proposition 98 guarantee is reduced because of the application of Test 3 (or a suspension of the guarantee), the amount lost is never repaid. It must eventually be restored in the future, however, according to a formula that is tied to the pace of the state’s economic recovery. The restoration target level for any year equals the sum of that year’s Test 2 guarantee plus a “maintenance factor” that represents the cumulative amount by which the Proposition 98 guarantee has been underfunded (as adjusted for enrollment growth and inflation).

During the recession of the early 1990s, the outstanding maintenance factor grew to \$2.2 billion at the end of 1993-94. During the intervening years, however, Proposition 98

funding has more than covered enrollment growth and inflation. As a result, at the end of 1997-98, the \$2.2 billion was fully restored. This process of restoration was primarily responsible for the major funding increases received by K–14 education in 1995-96 and 1996-97. Between 1997-98 and 2000-01, however, another factor was at work: the extraordinary growth of tax revenues resulting from a booming state economy. The availability of these new revenues enabled the Legislature and the Governor to provide funding in excess of the Proposition 98 minimum funding guarantee.

K–12 Education Highlights

The budget provides a total of \$40.5 billion in state and local funding in 2001-02 for K–12 education under Proposition 98, an increase of \$2.4 billion over the 2000 Budget Act level. The budget also provides funding of \$1.1 billion in one-time funds that must be used for Proposition 98 purposes but are not counted in the Proposition 98 totals for 2001-02.

Chart 2 shows the trend in Proposition 98 funding per pupil in K–12 schools from 1990-91 through 2001-02. The chart shows that, under the **2001 Budget Act**, schools will receive Proposition 98 funding averaging \$7,002 per pupil in average daily attendance (ADA) in 2001-02, an increase of 4.5 percent above the 2000 Budget Act level of \$6,701.

Chart 2 – Proposition 98 Funding per Pupil

[INSERT CHART 2 ABOUT HERE]

Table 2 summarizes total funding for K–12 education from all sources in 2001-02. The table shows that the budget projects total funding of \$53.7 billion.

**Table 2 - Funding for K–12 Education
All Sources and Proposition 98
(Dollars in Millions)**

Funding from	Funding Guaranteed by
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Sources of Funding	All Sources*	Proposition 98
State General Fund	\$32,087	\$28,808
State Lottery	827	—
Other State Funds	140	—
Federal Funds	5,388	—
Local Property Tax	11,824	11,667
Local Debt Service Tax	612	—
Other Local Funds	<u>2,843</u>	<u>—</u>
Total	\$53,721	\$40,475

*Includes California Department of Education state operations, state special schools, state school facilities bond repayments, state contributions to STRS, State Library, and Commission on Teacher Credentialing.

K–12 Education Spending Plan

As noted, the budget estimates that state and local funding for K–12 schools that counts toward Proposition 98 will total \$40.5 billion in 2001-02. This funding amount is an increase of \$2.4 billion above the 2000 Budget Act level.

Table 3 shows the uses of the \$2.4 billion in new Proposition 98 funds available for ongoing purposes in 2001-02. Table 4 shows the uses of one-time funding. These one-time funds consist of \$270 million for 1999-00 (for the special education settlement); \$250 million for 1995-96 and 1996-97 (for energy programs); and \$540 million of one-time reappropriated Proposition 98 funds that are not counted in the 2001-02 totals.

**Table 3 - Uses of New Ongoing Proposition 98 Funds
(Dollars in Millions)**

Cost-of-living adjustments	\$1,406.3
Enrollment growth	564.5
Other changes	
Targeted improvement block grant to replace two existing programs	713.4
Elimination of two existing programs	-713.4
Low-performing school program	200.0
Public School Accountability Act	135.4
Special education mandate settlement	125.0
Special education baseline funding adjustment	97.9
Before- and after-school programs	29.7
Special education equalization and low-incidence adjustments	12.7
Charter schools facilities lease costs	10.0

Revised projections of program costs	-171.8
Switch of ongoing programs to one-time funding	-77.8
Other adjustments	66.5
Total	\$2,398.4

Table 4 - Uses of One-Time Proposition 98 Funds
(Dollars in Millions)

Reappropriated funds	
Mandates, one-time costs	\$90.6
Mathematics and reading professional development program	80.0
Switch of ongoing programs to one-time funding	77.8
Mandates, ongoing costs	75.3
Revenue limit equalization (set aside)	40.0
Partial buy-out of PERS reduction	35.0
Education technology and career technical education	30.5
CalWORKS Stage 3 set-aside	24.0
FCMAT and CSIS	23.3
Principal training	15.0
Parent-teacher involvement	15.0
Special education deficiency	12.0
School safety	10.0
Teenage pregnancy prevention	3.5
High school exit examination workbooks	3.0
Other	5.1
Subtotal	\$540.1
Prior-year funds	
Special education mandate	\$270.0
Energy programs	250.0
Subtotal	\$520.0
Total	\$1,060.1